



STATE OF NEW JERSEY

Board of Public Utilities

Two Gateway Center

Newark, NJ 07102

www.bpu.state.nj.us

WATER AND WASTEWATER

IN THE MATTER OF THE APPLICATION OF)	ORDER ADOPTING INITIAL
FAYSON LAKE WATER COMPANY, A NEW)	DECISION/SETTLEMENT
JERSEY CORPORATION, FOR APPROVAL OF)	
AN INCREASE IN RATES AND AN ALTERATION)	DOCKET NO. WR03040278
OF TARIFF)	OAL DOCKET NO. PUCRS03991-03N

(SERVICE LIST ATTACHED)

BY THE BOARD¹:

On April 17, 2003, pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:5.12, Fayson Lake Water Company (Petitioner, Fayson Lake, or Company), a public utility of the State of New Jersey, subject to the jurisdiction of the Board of Public Utilities (Board), filed a petition seeking approval for an increase in rates for water service amounting to an overall increase in annual revenues of \$468,327 or 108%. The proposed rate increase was to become effective on May 17, 2003.

Fayson Lake serves approximately 856 residential customers and approximately 14 commercial customers in portions of the Borough of Kinnelon, Morris County, New Jersey.

PROCEDURAL HISTORY

On April 30, 2003, this matter was transferred to the Office of Administrative Law (OAL) and assigned to Administrative Law Judge (ALJ) Barry N. Frank.

The Board issued an Initial Suspension Order on May 8, 2003, suspending the proposed rates until September 17, 2003, unless the Board acted prior to that date. The Board issued a Further Suspension Order on November 11, 2003, suspending the proposed rates until January 17, 2004, unless the Board acted prior to that date.

On October 15, 2003, a public hearing was held in the Borough of Kinnelon. Approximately thirty (30) members of the public attended the hearing and addressed ALJ Frank. Those who attended the hearing voiced the following concerns: (1) the magnitude of the proposed rate increase; (2) the ability of the Company to supply water at adequate pressures; and (3) long-term prospects for a small utility with significant operational challenges. These

¹ Commissioner Frederick F. Butler did not participate in the deliberation or the vote on this matter.

issues were all investigated during the discovery process, during settlement discussions and by analysis of available information.

Subsequent to the public hearing, settlement discussions were held with the Company, the Division of the Ratepayer Advocate, and Board Staff (collectively, the Parties). There were no interveners to this proceeding. The Parties reached a settlement on all issues (Stipulation or Settlement).

ALJ Frank issued his Initial Decision recommending adoption of the Stipulation executed by all Parties, finding that the Parties voluntarily agreed to the Settlement and that the Settlement fully disposed of all issues and is consistent with the law.

STIPULATION

As set forth in the attached Stipulation, the Parties agreed that:²

1. The Company's total rate base for the purpose of this proceeding is to be \$540,998. (Settlement Paragraph 1).
2. The Company's capital structure will reflect 39.03% debt and 60.97% common equity, with a return on common equity set at 9.75% and an overall rate of return of 8.32%. (Settlement Paragraph 2).
3. An overall rate of return of 8.32% would result in an additional total company revenue requirement of \$133,482. The breakdown of the additional revenue requirement is attached to the Settlement as Exhibit A. (Settlement Paragraph 3).
4. A total company revenue increase of \$133,482, representing a 30.4% increase over current billed revenues is appropriate and necessary to ensure that the Company will continue to provide safe, adequate and proper service to its customers. (Settlement Paragraph 4).
5. The \$133,482 revenue increase would be implemented in two phases. The phase-in schedule is attached to the Settlement as Exhibit B, which also sets forth the stipulated rate design and proof of billed revenues for each phase. (Settlement Paragraph 5a).
6. The Phase I revenue increase is \$87,812 representing an overall increase of 20.03% over current billed revenues, is to be implemented as of the date of the Board's Order in this matter. Residential customers' rates will increase by 18.01%. Tariff pages reflecting the Phase I revenue increase are attached to the Settlement as Exhibit C. (Settlement Paragraph 5b).
7. An additional set of tariff pages reflecting the Phase II revenue increase of \$45,655 or 8.64% above total Phase I overall revenues are to be implemented by the Company no sooner than six months after the effective date of the Phase I

²Cited paragraphs referenced below are in the Settlement documents. This is only a summary, the full Settlement document controls, subject to the Board's findings and conclusions contained herein.

tariff pages. The Phase II tariff pages are attached as Exhibit D. (Settlement Paragraph 5c).

8. A Phase III petition is contemplated by this settlement. The Petitioner has agreed to investigate and pursue all reasonable solutions to the challenges that are unique to the Company's system. These challenges include addressing unmetered water flows and providing uniformly acceptable water pressure. These challenges are exacerbated by Fayson Lake's small size. Therefore, the Parties have agreed that the Company will be permitted to file a Supplemental Proceeding, to seek rate recovery, limited to a return of and return on the costs associated with Fayson Lake's water main replacement and meter replacement programs. These costs may include the debt service costs associated with the main replacement and meter replacement programs for the six month period beyond the effective date of this Order and fifty (50%) percent of rate case expenses incurred as a result of the Phase III filing. The motion for the Supplemental Proceeding must be filed after the date of this Order and must include a certification as to the actual costs incurred. (Settlement Paragraph 9).
9. The Company's current unaccounted-for-water ratio exceeds acceptable levels. Therefore, the Company agreed that its licensed operator or similarly responsible employee of the Company shall regularly investigate the system for any system loss within the constraints of the Company's financial resources. The status of this ongoing investigation shall be made available to Staff and the Ratepayer Advocate upon request and within a reasonable time frame. (Settlement Paragraph 6).
10. Certain features of Petitioner's system create unique service challenges, especially in providing uniformly acceptable water pressure, and service during power and telephone outages. The Company agreed to investigate and pursue all reasonable solutions to these challenges within the constraints of its limited financial resources. The status and results of this focused system planning effort shall be made available to the Staff and the Ratepayer Advocate upon request and within a reasonable time frame. (Settlement Paragraph 7).

DISCUSSION AND FINDINGS

As a result of the Stipulation, a residential customer's metered quarterly bill for water service will increase from \$119.69 to \$ 141.25 (\$478.76 per year to \$565 per year) representing an 18.01% increase in Phase I. In Phase II, a residential customer will experience an increase in quarterly bill from \$141.25 to \$153.45 (\$613.80 per year) representing an 8.64% over Phase I rates. The total increase under these conditions for a residential customer is 28.21%.

- a. The Company's total rate base for the purpose of this proceeding shall be \$540,998.
- b. The Company's capital structure shall reflect 39.03% debt; 60.97% common equity, and the return on common equity shall be 9.75%, which results in an overall rate of return of 8.32%.
- c. Using an overall rate of return of 8.32% shall result in an additional revenue requirement of \$133,482.

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- d. A revenue increase of \$133,482 representing a 30.4% increase over current billed revenues is appropriate and necessary to ensure that the Company shall continue to provide safe, adequate and proper service to its customers.
- e. The \$133,482 revenue increase shall be implemented in two phases. The phase-in schedule shall be as set forth on Exhibit B to the Stipulation, which also sets forth the stipulated rate design and proof of billed revenues for each Phase.³
- f. Phase I of the revenue increase shall be \$87,812 representing an overall increase of 20.03%. Residential customers' rates will increase by 18.01% assuming 80,000 gallons usage. The increase shall be implemented for service rendered on and after the date of the Board Order approving this Settlement. Tariff pages reflecting the Phase I revenue increase are attached to the Settlement as Exhibit C.
- g. An addition set of tariff pages reflecting the Phase II revenue increase of \$45,655 representing an 8.64% increase over Phase I rates shall be implemented by the Company no sooner than six (6) months after the effective date of the Phase I tariffs. Residential customers' rates will increase by 8.64% at 80,000 gallons of usage. The total increase to a residential customer, for both phases, shall be 28.21% at 80,000 gallons of usage. Tariff pages reflecting the Phase II revenue increase are attached to the Settlement as Exhibit D.
- h. The Company may file a Supplemental Phase III Proceeding, within six (6) months of the date of the Board Order as set forth in the Stipulation subject to the following conditions:
 - 1. A return of and a return on costs associated with the company's water main replacement and meter replacement programs;
 - 2. Debt service costs associated with the main replacement and meter replacement programs;
 - 3. No more than fifty percent (50%) of any rate case expenses;
 - 4. A certification as to the actual costs incurred related to the main replacement and meter replacement programs;
 - 5. Notice to customers, by post card or bill insert, with a copy sent to the clerk of the Borough of Kinnelon (Notice of the Supplemental Proceeding), and
 - 6. Follow the process set forth by this Order and the Stipulation.

³ Differences due to rounding.

Finally, the Board DIRECTS that a copy of the Notice of the Supplemental Proceeding be served upon the Clerk of the Morris County Board of Chosen Freeholders

The effective date of this Order is as dated below.

DATED: **5/12/04**

BOARD OF PUBLIC UTILITIES
BY:

(SIGNED)

JEANNE M. FOX
PRESIDENT

(SIGNED)

CAROL J. MURPHY
COMMISSIONER

(SIGNED)

CONNIE O. HUGHES
COMMISSIONER

(SIGNED)

JACK ALTER
COMMISSIONER

ATTEST:

(SIGNED)
KRISTI IZZO
SECRETARY

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I/M/O Fayson Lake Water Company
For Approval for an Increase in Rates
Docket No. WR03040278
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